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Arizona Corporation Commission

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CARL J. KUNASEK  
CHAIRMAN

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COMMISSIONER

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COMMISSIONER

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AZ CORP COMMISSION  
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## BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF THE JOINT  
APPLICATION OF CITIZENS UTILITIES  
COMPANY; AGUA FRIA WATER  
DIVISION OF CITIZENS UTILITIES  
COMPANY; MOHAVE WATER DIVISION  
OF CITIZENS UTILITIES COMPANY;  
SUN CITY WATER COMPANY; SUN  
CITY SEWER COMPANY; SUN CITY  
WEST UTILITIES COMPANY; CITIZENS  
WATER SERVICES COMPANY OF  
ARIZONA; CITIZENS WATER  
RESOURCES COMPANY OF ARIZONA;  
HAVASU WATER COMPANY AND  
TUBAC VALLEY WATER COMPANY,  
INC., FOR APPROVAL OF THE  
TRANSFER OF THEIR WATER AND  
WASTEWATER UTILITY ASSETS AND  
THE TRANSFER OF THEIR  
CERTIFICATES OF PUBLIC  
CONVENIENCE AND NECESSITY TO  
ARIZONA-AMERICAN WATER  
COMPANY AND FOR CERTAIN  
RELATED APPROVALS.

DOCKET NOS. W-01032A-00- 0192  
W-01032B-00- 0192  
W-01032C-00- 0192  
~~W-01656B-00-~~  
S-02276A-00- 0192  
WS-02334A-00- 0192  
WS-03454A-00- 0192  
WS-03455A-00- 0192  
W-02013A-00- 0192  
W-01595A-00- 0192  
W-01303A-00- 0192

NOTICE OF FILING CORRECTED  
TESTIMONY

Arizona-American Water Company, one of the joint applicants in the above-  
entitled matter, hereby files the Corrected Direct Testimony of David P. Stephenson  
in support of the application. This testimony is filed to correct certain minor errors  
appearing in the testimony and to include the schedule attached at Tab 1, which  
was inadvertently omitted from the application that was filed with the Commission  
on March 24, 2000.

...

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...

1 RESPECTFULLY SUBMITTED this 28<sup>th</sup> day of March, 2000.

2 FENNEMORE CRAIG

3  
4 By Norm D. James

5 Norman D. James  
6 3003 North Central Avenue  
7 Suite 2600  
8 Phoenix, AZ 85012  
9 Attorneys for Arizona-American  
10 Water Company

11 An original and 10 copies  
12 of the foregoing and attached  
13 exhibits were filed this 28<sup>th</sup>  
14 day of March, 2000, with:

15 Docket Control  
16 Arizona Corporation Commission  
17 1200 West Washington Street  
18 Phoenix, Arizona 85007

19 A copy of the foregoing  
20 and attached exhibits were  
21 delivered this 28<sup>th</sup> day of  
22 March, 2000, to:

23 Jerry L. Rudibaugh, Esq.  
24 Chief Hearing Officer  
25 Hearing Division  
26 Arizona Corporation Commission  
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Phoenix, Arizona 85007

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12 By: Mary L House  
13  
14  
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26

**CORRECTED DIRECT TESTIMONY OF**  
**DAVID P. STEPHENSON**  
**IN THE MATTER OF THE JOINT APPLICATION OF**  
**CITIZENS UTILITY COMPANY AND CERTAIN OF ITS SUBSIDIARY COMPANIES**  
**AND**  
**ARIZONA-AMERICAN WATER COMPANY**

MARCH 28, 2000

**Direct Testimony of David P. Stephenson**

1 Q 1 Please state your name, business address and telephone number.

2 A 1 My name is David P. Stephenson. My business address is 880 Kuhn Drive, Chula Vista,  
3 California 91914. My telephone number is (619) 656-2400.

4 Q 2 By whom are you employed and in what capacity?

5 A 2 I am employed by American Water Works Service Company, Inc. ("Service Company")  
6 as the Director of Rates and Revenues for the Western Region of American Water Works  
7 Company, Inc. ("AWW"). The Western Region is comprised of water and wastewater  
8 utilities located in Arizona, California, Hawaii and New Mexico, including Arizona-  
9 American Water Company ("Az-Am") (formerly Paradise Valley Water Company). I  
10 am also an Assistant Treasurer for Az-Am.

11 Q 3 Please summarize your responsibilities as the Director of Rates and Revenues.

12 A 3 I am responsible for all rate applications and similar filings and various written and face-  
13 to-face communications related to rates and charges for utility service with the public  
14 utility commissions that regulate AWW's operating utilities in Arizona, California,  
15 Hawaii and New Mexico.

16 Q 4 Describe your educational background.

17 A 4 I received a Bachelor of Science in Business Administration, with an emphasis in  
18 Accounting, from San Diego State University in 1977.

19 Q 5 Have you had any other formal training?

20 A 5 Yes, I have attended many seminars on various aspects of the water industry and rate  
21 applications, including the National Association of Regulatory Utility Commissioners  
22 ("NARUC") biannual Utility Rate Seminar.

**Direct Testimony of David P. Stephenson**

1 Q 6 Please describe your professional experience.

2 A 6 I have been employed by the American Water System since 1978. The various positions  
3 I have held within the American Water System are: Accountant - 1978; Accounting  
4 Superintendent for the Los Angeles Region - 1981; Assistant Director of Accounting for  
5 the operating utilities in the Western Region - 1983; Assistant Director of Rates and  
6 Revenues for the operating utilities in the Western Region - 1984; and Director of Rates  
7 and Revenues for the operating utilities in the Western Region since 1986.

8 Q 7 Have you had any other professional experience?

9 A 7 Yes, I served on the Accounting Committee of the California Water Association and have  
10 been an instructor at the NARUC biannual Utility Rate Seminar on eight occasions.

11 Q 8 Have you previously testified before utility regulatory commissions?

12 A 8 Yes, I have testified before the Arizona Corporation Commission (the "Commission") in  
13 rate proceedings for Az-Am, the California Public Utilities Commission on many  
14 occasions in rate proceedings for California-American Water Company and the New  
15 Mexico Public Regulation Commission in rate proceedings for New Mexico-American  
16 Water Company.

17 Q 9 Please define the terms that you intend to use in this testimony as they relate to Az-Am's  
18 purchase of the water and wastewater assets of Citizens Utilities Company and its  
19 subsidiaries located within Arizona.

20 A 9 The defined terms that I will use in my testimony are as follows:

- 21 1. Citizens Utilities Company is referred to as "Citizens."  
22 2. The various water and wastewater subsidiaries and operating divisions of Citizens in  
23 Arizona are referred to as "Citizens AZ."

**Direct Testimony of David P. Stephenson**

1        3. The asset side of Citizens' balance sheet, including all utility plant and related items,  
2        non-utility plant, current assets, deferred assets and rights under Citizens' certificates  
3        of public convenience and necessity being acquired by AWW's operating  
4        subsidiaries, is referred to as the "Acquired Assets."

5        4. The Acquired Assets in Arizona are referred to as the "AZ Acquired Assets."

6        5. The gross water and wastewater utility plant used by Citizens in the operation of its  
7        water and wastewater utilities in all six states is referred to as "Citizens Gross Plant."

8        6. The gross water utility plant used by Citizens AZ in the business of storing,  
9        supplying, distributing and selling water and in the business of providing wastewater  
10       collection, treatment and disposal to the public is referred to as "AZ Gross Plant."

11  
12    Q 10   Briefly describe the transaction that is the subject of this Application.

13    A 10.   Under the terms of the Asset Purchase Agreement, dated as of October 15, 1999, Az-Am  
14       has agreed to purchase the AZ Acquired Assets. The Joint Application to which this  
15       testimony is attached seeks Commission approval of the transfer of the AZ Acquired  
16       Assets to Az-Am, authorization for Az-Am to engage in and carry on the water and  
17       wastewater utility business and to provide service to the customers of Citizens AZ, and  
18       for Citizens AZ to withdraw from the water and wastewater utility business in Arizona.  
19       In addition, Az-Am is seeking an accounting order relating to the transaction, as  
20       explained below. Similar Asset Purchase Agreements have been executed relating to the  
21       Acquired Assets of Citizens with Az-Am sister entities in the five other states in which  
22       Citizens provides water and wastewater utility service.

23    Q 11.   What is your general assignment in connection with the Joint Application?

24    A 11.   My general assignment is to sponsor the Joint Application and all of the supporting  
25       exhibits. I am responsible for supporting the method of allocation of the total purchase

**Direct Testimony of David P. Stephenson**

1 price for all of the Acquired Assets to each of the AWW operating utilities in the six  
2 states involved and the methodology that will be used to account for the difference  
3 between the purchase price paid by Az-Am for the AZ Acquired Assets and the book  
4 value of the AZ Acquired Assets. In addition, I will briefly discuss the preliminary  
5 synergy analysis that has been performed in connection with the transaction. Mr. Joseph  
6 F. Hartnett, Treasurer of AWW, and Mr. Daniel L. Kelleher, Senior Vice President of the  
7 Service Company, have also provided direct testimony. Mr. Hartnett's testimony  
8 discusses the background and negotiations leading up to the acquisition of the Acquired  
9 Assets from AWW's perspective. Mr. Kelleher provides testimony describing the  
10 reasons for the acquisition from AWW's perspective as well as the trends in the water  
11 industry that have led AWW to pursue the acquisition of other water systems.

12 Q 12 Please state the purchase price that AWW agreed to pay for the Acquired Assets.

13 A 12 AWW agreed to pay a total of \$835,000,000 for all of the Acquired Assets in the six  
14 states, including Arizona. The negotiations that resulted in this purchase price are  
15 discussed in Mr. Hartnett's testimony.

16 Q 13 How was the total purchase price determined for each of the six states?

17 A 13 The purchase price was determined for each of the states based on the portion of the  
18 Citizens Gross Plant in that state.

19  
20 Q 14 Why was this method chosen?

21 A 14 This method was chosen because the Gross Plant represents Citizens' plant and property  
22 dedicated to the provision of water and wastewater utility service in each state.  
23 Determining the total purchase price by state on the basis of the Gross Plant used for the  
24 provision of utility service in that state is a fair and reasonable methodology. It provides



**Direct Testimony of David P. Stephenson**

1 a realistic and rational basis for allocating the appropriate portion of the total purchase  
2 price to the utility operations in each state.

3 Q 15 Using this methodology, what is the calculated purchase price for the AZ Acquired  
4 Assets?

5 A 15 Citizens AZ had an AZ Gross Plant balance of \$167.15 million (M) as of June 30, 1999.  
6 Citizens had a Gross Plant balance in the six states of \$603.38M as of June 30, 1999.  
7 Therefore, the Arizona property is 27.70% of the total. Multiplying the purchase price of  
8 \$835M by 27.70% results in a purchase price of \$231.31M for Az-Am.

9 Q 16 Does the purchase price for the AZ Acquired Assets exceed the AZ Acquired Asset  
10 balance as of June 30, 1999?

11 A 16 Yes. The AZ Acquired Asset balance was \$160.2M, based on the June 30, 1999 balance  
12 sheet for Citizens AZ. The difference between the purchase price and the AZ Acquired  
13 Asset balance will change somewhat based on a final agreement between the parties on  
14 the Statement of Net Assets.

15 Q 17 Will the purchase price of the AZ Acquired Assets be adjusted at the time all approvals  
16 have been received?

17 A 17 Yes, the actual, final purchase price will be determined based upon the AZ Acquired  
18 Asset purchase price of \$231.3M, plus any additions and less any retirements after June  
19 30, 1999.

20 Q18 How will Az-Am account for the difference between the purchase price and the AZ  
21 Acquired Asset balance for regulatory purposes?

**Direct Testimony of David P. Stephenson**

1 A18 The difference will be recorded as an acquisition adjustment in accordance with the  
2 Uniform System of Accounts. The ratemaking treatment of the acquisition adjustment  
3 and the related amortization would be determined in Az-Am's next general rate  
4 proceeding. Az-Am is not requesting that treatment for ratemaking purposes be  
5 determined at this time. However, Az-Am does seek an accounting order in regard to the  
6 amortization period and methodology to be used.

7 Q 19 What is the amortization period that Az-Am proposes to use?

8 A 19 Forty years.

9 Q 20 What method of amortization is Az-Am proposing to use?

10 A 20 Az-Am proposes to use a mortgage amortization method, which uses the same  
11 amortization principle as home mortgages. Under this method, Az-Am would recover  
12 only a small portion of the acquisition adjustment in the initial years and recover  
13 increasingly greater amounts in the later years. The annual amortization increases each  
14 year. The proposed amortization of the acquisition adjustment balance is shown on page  
15 4 of the schedule attached to this testimony at Tab 1.

16 Q 21 What is the normal method of recovery for utility assets?

17 A 21 The normal method, known as a straight-line method of recovery, involves equal or level  
18 recovery in each year of the asset's life.

19 Q 22 Why are you proposing the mortgage method rather than the straight-line method?

20 A 22 Although there are several reasons for this proposal, there is one significant reason that I  
21 will address. The mortgage method levels the annual recovery of principal and carrying  
22 costs. The mortgage method does not front-end load the revenue requirement as do  
23 straight-line recovery methods. Also, level annual principal and carrying cost recovery

**Direct Testimony of David P. Stephenson**

1 will provide an easier measurement against which to compare the synergy savings to the  
2 revenue requirement relating to the acquisition adjustment.

3 Q23 What should the Commission authorize in this proceeding in regard to an acquisition  
4 adjustment?

5 A23 Az-Am requests that the Commission authorize a 40-year amortization period and use of  
6 a mortgage amortization method, as discussed previously. Az-Am also requests that the  
7 Commission defer determination of the ratemaking treatment of the acquisition  
8 adjustment and related amortization until a general rate proceeding, at which time we will  
9 have a final purchase price and other financial information available, as well as detailed  
10 data and information available on the savings and benefits that are expected to accrue to  
11 ratepayers. This data and information will be provided to the Commission as part of the  
12 rate application.

13  
14 Q 24 Has Az-Am attempted to perform an analysis of the savings likely to result from the  
15 acquisition of the AZ Acquired Assets?

16 A 24 Yes. This preliminary analysis, which I will refer to as the "Synergy Analysis," is based  
17 upon the post-consolidation, combined Az-Am entity that will exist after Az-Am's  
18 acquisition of the AZ Acquired Assets. A summary of the Synergy Analysis is attached  
19 at Tab 1.

20 Q 25 Please summarize the methodology used to develop the Synergy Analysis.

21 A 25 The Synergy Analysis is based on an objective quantification of savings related to  
22 reductions in employee positions and related benefits, reductions in duplicative expenses,  
23 avoidance of expenses, cost of capital reductions, savings in material costs, use of  
24 existing employees and equipment to replace purchased services, and historical and future

**Direct Testimony of David P. Stephenson**

1 trend reductions. The expenses of each company (Az-Am and Citizens AZ ) were  
2 analyzed for possible savings. A summary of the synergy savings is found on pages 2 and  
3 3 of the summary attached at Tab 1. However, the synergy savings would still exceed the  
4 revenue requirement relating to acquisition adjustment.

5 Q26 What is Az-Am's current estimate of the synergy savings resulting from the transaction?

6 A26 At this time, we estimate total synergy savings of approximately \$960M over a 40-year  
7 period. Subject to Commission approval in a subsequent rate proceeding, the synergy  
8 savings would be offset by recovery of the acquisition adjustment over the same 40-year  
9 period. Assuming that the acquisition adjustment is \$71.1M, based on Citizens AZ's  
10 balance sheet as of June 30, 1999 and assuming that there is no adjustment to the  
11 purchase price, synergy savings would exceed the revenue requirement relating to the  
12 acquisition adjustment by about \$718M over the 40-year period or by a net present value  
13 of approximately \$90M, as shown on page 4 of the summary.

14 Q 27 Is the Synergy Analysis complete?

15 A 27 No, it is a work in progress based on the latest information now available to us. The  
16 synergy savings that have been provided to the Commission as part of this Joint  
17 Application are Az-Am's best estimates of such savings at this time. The intent of the  
18 Synergy Analysis is to provide the Commission with supportable evidence that the  
19 customers will in fact benefit from this transaction. Az-Am recognizes, and the Joint  
20 Application reflects, that actual synergy savings can be fully developed and quantified  
21 only after the transaction closes and Az-Am is able to fully integrate the AZ Acquired  
22 Assets into Az-Am and, more generally, the American Water System. The Synergy  
23 Analysis will be more refined and the results more quantifiable by the time Az-Am files a  
24 rate proceeding for the combined Az-Am entity.

**Direct Testimony of David P. Stephenson**

1 Q 28 Will the synergies you have estimated in connection with the Joint Application change?

2 A 28 Yes, they are only forecasts and there certainly will be deviations from the synergies  
3 estimated in the attached schedule. For example, some years may produce greater  
4 savings from synergies than we presently forecast, while other years may produce less.  
5 However, on a cumulative basis we are confident that the full projected synergy savings  
6 will be realized. It necessarily will take time to realize the full savings potential. It will  
7 take time to achieve full integration and to fully understand how integration will affect  
8 operations. Until the consolidation of the companies is complete and an interim period of  
9 post-consolidation operation is experienced, the precise annual amount of synergy  
10 savings is difficult to quantify.

11 Q 29 Does this conclude your direct testimony?

12 A 29 Yes it does.

1

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Year	Savings O&M Labor	Purchased Water Savings	Purchased Power Savings	Chemical Savings	Waste Disposal Savings	Management Fee Savings	Group Insurance Savings	Pension Savings	Regulatory Expense
Acq Year	-373,084	0	0	0	0	1,116,464	-89,574	260	0
1	-772,284	0	0	0	0	2,288,752	-200,917	537	0
2	-799,313	0	0	0	0	2,345,971	-225,294	556	0
3	-827,289	0	0	0	0	2,404,620	-252,595	575	0
4	-856,244	0	0	0	0	2,464,735	-283,174	595	0
5	-886,213	0	0	0	0	2,526,353	-317,425	616	0
6	-917,230	0	0	0	0	2,589,511	-355,791	638	0
7	-949,333	0	0	0	0	2,654,249	-398,769	660	0
8	-982,560	0	0	0	0	2,720,605	-446,918	683	0
9	-1,016,949	0	0	0	0	2,788,620	-500,862	707	0
10	-1,052,542	0	0	0	0	2,858,336	-561,303	732	0
11	-1,089,381	0	0	0	0	2,929,794	-629,030	758	0
12	-1,127,509	0	0	0	0	3,003,039	-704,926	785	0
13	-1,166,972	0	0	0	0	3,078,115	-789,984	812	0
14	-1,207,816	0	0	0	0	3,155,068	-885,318	840	0
15	-1,250,089	0	0	0	0	3,233,945	-992,180	869	0
16	-1,293,842	0	0	0	0	3,314,794	-1,111,975	899	0
17	-1,339,127	0	0	0	0	3,397,664	-1,246,279	930	0
18	-1,385,997	0	0	0	0	3,482,606	-1,396,865	963	0
19	-1,434,507	0	0	0	0	3,569,671	-1,565,723	997	0
20	-1,484,714	0	0	0	0	3,658,913	-1,755,089	1,032	0
21	-1,536,679	0	0	0	0	3,750,386	-1,967,475	1,068	0
22	-1,590,463	0	0	0	0	3,844,146	-2,205,706	1,105	0
23	-1,646,129	0	0	0	0	3,940,249	-2,472,951	1,144	0
24	-1,703,743	0	0	0	0	4,038,755	-2,772,778	1,184	0
25	-1,763,374	0	0	0	0	4,139,724	-3,109,192	1,225	0
26	-1,825,092	0	0	0	0	4,243,217	-3,486,699	1,268	0
27	-1,888,970	0	0	0	0	4,349,297	-3,910,363	1,312	0
28	-1,955,084	0	0	0	0	4,458,030	-4,385,878	1,358	0
29	-2,023,512	0	0	0	0	4,569,481	-4,919,648	1,406	0
30	-2,094,335	0	0	0	0	4,683,718	-5,518,872	1,455	0
31	-2,167,637	0	0	0	0	4,800,811	-6,191,650	1,506	0
32	-2,243,505	0	0	0	0	4,920,831	-6,947,090	1,559	0
33	-2,322,027	0	0	0	0	5,043,852	-7,795,440	1,614	0
34	-2,403,298	0	0	0	0	5,169,948	-8,748,228	1,670	0
35	-2,487,414	0	0	0	0	5,299,197	-9,818,424	1,728	0
36	-2,574,473	0	0	0	0	5,431,677	-11,020,623	1,788	0
37	-2,664,579	0	0	0	0	5,567,469	-12,371,249	1,851	0
38	-2,757,839	0	0	0	0	5,706,656	-13,888,786	1,916	0
39	-2,854,363	0	0	0	0	5,849,323	-15,594,038	1,983	0
40	-2,954,266	0	0	0	0	5,995,556	-17,510,423	2,052	0
TOTAL	-65,669,777	0	0	0	0	155,384,148	-159,345,504	45,636	0
Present Value 8.55%	-12,336,442	0	0	0	0	32,363,974	-13,782,168	8,576	0

(11)	(12)	(13)	(14)	(15)	(16)	(17)	(18)	(19)	(20)	(21)
Insurance Other	Customer Accounting	Rents	General Office Expense	Miscellaneous Expense	Maintenance Expense	Depreciation Savings	General Tax Savings	Capital Investment Savings	Return on Investment	Total Savings
81,432	200,000	17,808	0	-200,712	0	40,029	87,531	360,000	475,309	1,715,463
162,863	410,000	36,506	0	-411,459	0	160,117	287,043	1,071,000	1,020,796	4,052,954
162,863	420,250	37,419	0	-421,746	0	322,235	515,881	1,782,000	1,103,337	5,244,159
162,863	430,756	38,354	0	-432,290	0	488,405	744,570	2,492,000	1,165,878	6,415,847
162,863	441,525	39,313	0	-443,097	0	658,731	973,103	3,203,000	1,213,062	7,574,412
162,863	452,563	40,296	0	-454,174	0	833,314	1,201,476	3,913,000	1,240,830	8,713,499
162,863	463,877	41,303	0	-465,529	0	1,012,262	1,429,685	4,622,000	1,281,539	9,865,128
162,863	475,474	42,336	0	-477,168	0	1,195,684	1,657,724	5,332,000	1,337,735	11,033,455
162,863	487,361	43,394	0	-489,097	0	1,383,691	1,885,588	6,041,000	1,394,732	12,201,342
162,863	499,545	44,479	0	-501,325	0	1,576,398	2,113,272	6,750,000	1,452,564	13,369,312
162,863	512,034	45,591	0	-513,859	0	1,773,923	2,340,771	7,459,000	1,511,269	14,536,815
162,863	524,835	46,731	0	-526,705	0	1,976,386	2,568,080	8,166,000	1,570,881	15,701,212
162,863	537,956	47,899	0	-539,873	0	2,183,911	2,795,191	8,875,000	1,631,438	16,865,774
162,863	551,405	49,096	0	-553,370	0	2,396,624	3,022,100	9,582,000	1,692,977	18,025,666
162,863	565,190	50,323	0	-567,204	0	2,614,655	3,248,801	10,291,000	1,755,535	19,183,937
162,863	579,320	51,581	0	-581,384	0	2,838,136	3,475,286	10,998,000	1,819,152	20,335,499
162,863	593,803	52,871	0	-595,919	0	3,067,205	3,701,549	11,704,000	1,883,865	21,480,113
162,863	608,648	54,193	0	-610,817	0	3,302,000	3,927,585	12,411,000	1,949,716	22,618,376
162,863	623,864	55,548	0	-626,087	0	3,542,665	4,153,385	13,117,000	2,016,744	23,746,689
162,863	639,461	56,937	0	-641,740	0	3,789,347	4,378,943	13,822,000	2,084,990	24,863,239
162,863	655,448	58,360	0	-657,784	0	4,042,195	4,604,252	14,528,000	2,154,497	25,967,973
162,863	671,834	59,819	0	-674,228	0	4,301,365	4,829,303	15,233,000	2,225,308	27,056,564
162,863	688,630	61,314	0	-691,083	0	4,567,014	5,054,089	15,948,000	2,297,464	28,127,373
162,863	705,846	62,847	0	-708,360	0	4,839,305	5,278,603	16,643,000	2,371,012	29,177,429
162,863	723,492	64,418	0	-726,069	0	5,118,403	5,502,834	17,347,000	2,445,995	30,202,354
162,863	741,579	66,028	0	-744,221	0	5,404,478	5,726,775	18,050,000	2,522,461	31,198,346
162,863	760,118	67,679	0	-762,826	0	5,697,705	5,950,419	18,753,000	2,600,455	32,162,107
162,863	779,121	69,371	0	-781,897	0	5,998,262	6,173,753	19,456,000	2,680,026	33,088,775
162,863	798,599	71,105	0	-801,445	0	6,306,334	6,396,771	20,158,000	2,761,222	33,971,875
162,863	818,564	72,883	0	-821,481	0	6,622,107	6,619,462	20,860,000	2,844,092	34,806,217
162,863	839,028	74,705	0	-842,019	0	6,945,775	6,841,816	21,561,000	2,928,689	35,583,823
162,863	860,004	76,573	0	-863,069	0	7,277,534	7,063,822	22,262,000	3,015,063	36,297,820
162,863	881,504	78,487	0	-884,646	0	7,617,568	7,285,469	22,963,000	3,103,268	36,939,328
162,863	903,542	80,449	0	-906,762	0	7,966,143	7,506,749	23,663,000	3,193,357	37,497,340
162,863	926,131	82,460	0	-929,431	0	8,323,411	7,727,647	24,362,000	3,285,386	37,960,559
162,863	949,284	84,522	0	-952,667	0	8,689,612	7,948,154	25,061,000	3,379,410	38,317,265
162,863	973,016	86,635	0	-976,484	0	9,064,967	8,168,258	25,759,000	3,475,488	38,552,112
162,863	997,341	88,801	0	-1,000,896	0	9,449,706	8,387,943	26,458,000	3,573,678	38,650,928
162,863	1,022,275	91,021	0	-1,025,919	0	9,844,064	8,607,201	27,155,000	3,674,041	38,592,493
162,863	1,047,832	93,297	0	-1,051,567	0	10,248,281	8,826,015	27,862,000	3,776,636	38,358,262
162,863	1,074,028	95,629	0	-1,077,657	0	10,662,603	9,044,374	28,548,000	3,879,231	37,921,790
6,595,952	27,835,083	2,476,381	0	-27,934,266	0	184,142,570	188,051,273	594,601,000	91,769,128	997,973,624
1,763,891	5,797,588	516,209	0	-5,818,240	0	23,234,120	26,932,329	85,871,099	17,393,143	161,944,080



## Acquisition Adjustment Analysis

## CITIZENS

BOY Balance	BOY	Amortization	EOY	Tax Dep	Def Tax	Acc Def Tax	AVERAGE	Revenue Requirement
0	71151139	\$55,000	71096139	2371705	933632	933632	70660000	4050000
1	71096139	\$110,000	70986139	4743409	1867264	2800896	69170000	7985000
2	70986139	\$122,500	70863639	4743409	1862226	4663122	67190000	7772000
3	70863639	\$136,400	70727239	4743409	1856625	6519747	65200000	7559000
4	70727239	\$152,000	70575239	4743409	1850338	8370085	63210000	7348000
5	70575239	\$169,300	70405939	4743409	1843366	10213451	61200000	7137000
6	70405939	\$188,600	70217339	4743409	1835588	12049039	59180000	6926000
7	70217339	\$210,000	70007339	4743409	1828964	13876003	57150000	6717000
8	70007339	\$233,900	69773439	4743409	1817332	15693335	55110000	6508000
9	69773439	\$260,600	69512839	4743409	1806572	17499907	53050000	6300000
10	69512839	\$290,200	69222639	4743409	1794643	19294550	50970000	6093000
11	69222639	\$323,300	68899339	4743409	1781304	21075854	48880000	5888000
12	68899339	\$360,100	68539239	4743409	1766474	22842328	46760000	5684000
13	68539239	\$401,100	68138139	4743409	1749951	24592279	44620000	5481000
14	68138139	\$446,700	67691439	4743409	1731574	26323853	42460000	5281000
15	67691439	\$497,600	67193839	2371705	755264	27079117	40740000	5136000
16	67193839	\$554,200	66639639	0	-223343	26855774	39950000	5103000
17	66639639	\$617,300	66022339	0	-248772	26607002	39600000	5126000
18	66022339	\$687,600	6534739	0	-277103	26329899	39210000	5152000
19	6534739	\$765,900	64568839	0	-308658	26021241	38780000	5181000
20	64568839	\$853,100	63715739	0	-343799	25677442	38290000	5212000
21	63715739	\$950,200	62765539	0	-382931	25294511	37750000	5248000
22	62765539	\$1,058,400	61707139	0	-426535	24867976	37160000	5289000
23	61707139	\$1,178,900	60528239	0	-475097	24392879	36490000	5333000
24	60528239	\$1,313,200	59215039	0	-529220	23863659	35740000	5382000
25	59215039	\$1,462,700	57752339	0	-589468	23274191	34910000	5437000
26	57752339	\$1,629,200	56123139	0	-656568	22617623	33990000	5499000
27	56123139	\$1,814,700	54308439	0	-731324	21886299	32960000	5567000
28	54308439	\$2,021,300	52287139	0	-814584	21071715	31820000	5644000
29	52287139	\$2,251,400	50035739	0	-907314	20164401	30540000	5728000
30	50035739	\$2,507,700	47528039	0	-1010603	19153798	29120000	5823000
31	47528039	\$2,793,200	44734839	0	-1125660	18028138	27540000	5929000
32	44734839	\$3,111,200	41623639	0	-1253814	16774324	25780000	6046000
33	41623639	\$3,465,400	38158239	0	-1396556	15377768	23810000	6176000
34	38158239	\$3,860,000	34298239	0	-1555580	13822188	21630000	6323000
35	34298239	\$4,299,400	29998839	0	-1732658	12089530	19190000	6484000
36	29998839	\$4,788,900	25209939	0	-1929927	10159603	16480000	6665000
37	25209939	\$5,334,100	19875839	0	-2149642	8009961	13460000	6867000
38	19875839	\$5,941,400	13934439	0	-2394384	5615577	10090000	7090000
39	13934439	\$6,617,900	7316539	0	-2667014	2948563	6340000	7340000
40	7316539	\$7,316,300	2257532799	71151136	-2948469	94	2180000	7564000
		71150900					1598360000	249073000

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## Synergy Analysis - Customer Rate Impact Viewpoint

Year	(1)	(2)	(3)
	Synergy Savings	Acquisition Adjustment Revenue Req.	Cumulative Synergy Savings- Company
1	1,715,463	4,050,000	-2,334,537
2	4,052,954	7,985,000	-6,266,583
3	5,244,159	7,772,000	-8,794,424
4	6,415,847	7,559,000	-9,937,577
5	7,574,412	7,348,000	-9,711,165
6	8,713,499	7,137,000	-8,134,666
7	9,865,128	6,926,000	-5,195,538
8	11,033,455	6,717,000	-879,083
9	12,201,342	6,508,000	4,814,259
10	13,369,312	6,300,000	11,883,571
11	14,536,815	6,093,000	20,327,386
12	15,701,212	5,888,000	30,140,598
13	16,865,774	5,684,000	41,322,372
14	18,025,666	5,481,000	53,867,038
15	19,183,937	5,281,000	67,769,975
16	20,335,499	5,136,000	82,969,474
17	21,480,113	5,103,000	99,346,587
18	22,618,376	5,126,000	116,838,963
19	23,746,689	5,152,000	135,433,652
20	24,863,239	5,181,000	155,115,891
21	25,967,973	5,212,000	175,871,864
22	27,056,564	5,248,000	197,680,428
23	28,127,373	5,289,000	220,518,801
24	29,177,429	5,333,000	244,363,230
25	30,202,354	5,382,000	269,183,584
26	31,198,346	5,437,000	294,944,930
27	32,162,107	5,499,000	321,608,037
28	33,088,775	5,567,000	349,129,812
29	33,971,875	5,644,000	377,457,687
30	34,806,217	5,728,000	406,535,904
31	35,583,823	5,823,000	436,296,727
32	36,297,820	5,929,000	466,665,547
33	36,939,328	6,046,000	497,558,875
34	37,497,340	6,176,000	528,880,215
35	37,960,559	6,323,000	560,517,774
36	38,317,265	6,484,000	592,351,039
37	38,552,112	6,665,000	624,238,151
38	38,650,928	6,867,000	656,022,079
39	38,592,493	7,090,000	687,524,572
40	38,358,262	7,340,000	718,542,834
TOTAL	960,051,834	241,509,000	718,542,834
NPV	160,631,681	70,751,778	89,879,903